INSURANCE COUNSELOR

Insurance Consumer Information Sheet

Understanding Life Insurance: Should You Change or Cancel a Policy?

It can be to your disadvantage to cancel or change your existing life insurance and replace it with a new life insurance policy. Some reasons for this are:

- You may incur additional expenses in the early years of the new policy which will significantly lower its cash value. The expenses may include any costs associated with the issuing of a new policy such as the agent=s commission, the administrative cost of producing and delivering the policy and the cost of setting up the new account on the company=s computer system.

- You may *lose benefits* during the first two years with a new policy. A company can deny a claim during the first two years if it can be shown that you withheld information from your application which was important to the decision whether to insure you. This is called the *contestable period*. If you change policies, you must go through the two year contestable period again.

- You may pay *higher rates* on the new policy because you older than you were when you purchased your original policy and life insurance rates are based on your current age.

BEFORE YOU DROP OR CASH IN YOUR PRESENT INSURANCE POLICY AND APPLY FOR NEW INSURANCE, TAKE THE FOLLOWING STEPS:

1. Read any material provided by the agent or the insurer carefully. Discuss it with the agent. The agent is required by law to provide you with all pertinent facts of the change.

2. Compare the benefits and cash values of the two policies. You should also explore any possible surrender charges and tax implications that might apply.

3. Compare options between the two policies. Life insurance policies usually have many options covering how dividends will be used, how claims will be paid, how loans or withdrawals will be handled, and other features.

4. Compare the loan interest rates. The interest rate for new policies may be higher than that for the existing policy. Therefore, you may pay more interest if you want to borrow the cash value.

5. Find out if the existing policy and/or the proposed policy are participating. If a policy is participating, the policyholder may receive a dividend. Remember, no company can guarantee the amount of dividends it will pay in the future.

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6. Compare the present and future cost of the proposed and existing policies. In a term policy, the renewal cost may go up at the end of the term period depending on the policy provisions. Remember that only the minimum interest rate under the policy is guaranteed.

    7. Contact the agent of your present company. Your present company can often make changes in your existing insurance on terms which are more favorable to you than can another company.

IF YOU DO NOT UNDERSTAND ALL ASPECTS OF THE TRANSACTION, YOU SHOULD NOT DROP OR CHANGE YOUR EXISTING LIFE INSURANCE IN ORDER TO REPLACE IT WITH NEW LIFE INSURANCE. If you have any questions that your agent can't answer, contact the Office of Financial and Insurance Services (OFIS), Division of Insurance at the address below for assistance.

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